Economic Landscape

January 2025

MANUFACTURING

- The ISM manufacturing index rose to 49.3% in December, showing a slower pace of contraction compared to November. The acceleration in new orders growth and steady reading on new export orders suggest demand is firming. The production index returned to expansion as output stabilized. Elevated input prices persist, and employment remains in contraction as businesses made final workforce adjustments to align with current year expectations.
- Industrial production exceeded expectations and jumped by 0.9% in December. Factory output rose 0.6%, with a big gain (+6.3%) in aerospace and miscellaneous transportation equipment reflecting the resolution of the Boeing strike. Mining production rose 1.8% in December, and utilities output increased by 2.1%. Capacity utilization rose to 77.6%, a rate 2.1 percentage points below the 1972-2023 average.

LABOR MARKETS

- Total nonfarm payroll employment increased by 256,000 in December, and the unemployment rate edged slightly lower to 4.1%. Employment trended up in health care (+46,000); leisure and hospitality (+43,000); government (+33,000); and social assistance (+23,000). Retail trade added jobs in December (+43,000), following a decline in November. Average hourly earnings rose by 0.3% for the month, and annual wage growth edged down to 3.9% in December.
- Job openings ticked higher (+259,000) to 8.1 million in the November JOLTS, while hires fell modestly lower (-125,000) to 5.3 million. Total separations declined (-180,000) to 5.1 million, with small increases in layoffs (+17,000) and other separations (+21,000) more than offset by the drop in quits (-218,000). The quits rate fell to 1.9%.

PRICES

- The headline Consumer Price Index (CPI) rose 0.4% in December, boosted by a 2.6% jump in the energy index. Prices for gasoline prices and fuel oil each rose 4.4% for the month, and natural gas service prices increased by 2.4%. Food prices were up 0.3% in December reflecting gains in grocery prices as well as higher prices to dine out. Core CPI rose 0.2%, in line with economist forecasts and marking a slowdown from the pace that had prevailed over the previous few months. Year over year through December, headline CPI advanced 2.9% and core CPI rose 3.2%.
- The December Producer Price Index for final demand rose 0.2%. The index for services was flat, but the index for final demand goods increased 0.6% in December, mostly due to the 3.5% surge in the energy component. U.S. import prices advanced 0.1% with fuel imports up 1.4% and while nonfuel imports rose 0.1% in December. The index for U.S. export prices increased 0.3% for the month as agricultural prices rose 0.5% and nonagricultural export prices advanced 0.3%.

SALES

- Holiday shoppers delivered a solid finish to the year, as retail sales rose 0.4% in December following an upwardly revised 0.8% gain in November. Auto sector sales increased by 0.7% in December, while higher prices helped push gas station sales up by 1.5%. Sales excluding auto and gas rose 0.4%, and gains were broad-based with downturns limited to sales at home improvement stores (-2.0%), health & personal care stores (-0.2%), and bars & restaurants (-0.3%).

FED LIGHT SPECIAL

The Fed cut the target federal funds rate range by another quarter point last month, to 4.25% to 4.50%, and assessed the risks to their dual mandate as balanced. Their updated economic projections suggest slightly stronger GDP growth and modestly lower unemployment this year, but with slower progress in bringing down inflation. The December dot plot suggests only two more rate cuts over the course of 2025, and based on the recent resilience in labor markets and consumer spending, the Fed will likely remain on hold for now.

First Commonwealth Advisors